



MICHAEL J. MURPHY
State Treasurer

Fall 2003

The LOCAL View

Local Option Capital Asset Lending

Construction financing adds new flexibility to LOCAL real estate program

by **Michael J. Murphy**
Washington State Treasurer

In the realm of the famous Five W's, we until recently were most often asked the "why" question: **Why** don't you offer construction financing?

Well, the answer – and thanks for asking – is, "We do."

We did our first two construction financings at the May 2003 COP sale. Your jurisdiction can now think in terms of financing construction up front, rather than being reimbursed afterward, as was previously the policy.

We expect this newest wrinkle in our LOCAL program will bring new flexibility to your decision-making and funding processes.

Here are answers to some other "W" questions:

Why did LOCAL decide to add construction financing to the package?

We have found that most capital projects involve construction, so we are simply meeting a need of local government.

What is the process for getting started?

It's the same process as for buying land and buildings. Submit a Notice of Intent and real

estate worksheet by the cutoff date. Also, submit a credit form if applicable.

What are the approval procedures for our council or commission?

Again, it's the same as with land and buildings or equipment. The council or commission needs to pass an authorizing resolution or ordinance.

When are the deadlines?

They are the same as for land and buildings (please note that real estate financings are now quarterly instead of twice a year).

Why is construction financing an improvement for the LOCAL program?

It eliminates the need for a local government to pay for construction from its own funds or get a separate loan during construction. It's one-step financing: dollars borrowed up front can be drawn down during construction as needed. We also believe the potential for increased participation in LOCAL will make our rates even more competitive.

Who should we talk to about construction financing?

Call any of the LOCAL staff members listed in this newsletter. We'll be happy to go over the process with you or set up a time to meet.

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LOCAL financing: How do you account for it?

by **JoLynn Berge**

School Specialist

Washington State Auditor's Office

The Office of the State Treasurer (OST) has heard several questions recently from school districts about accounting for equipment purchased through the LOCAL program.

Districts have asked whether they need to include the debt from these financings in their financial statements. So OST asked the State Auditor's Office to outline accounting requirements for LOCAL transactions.

Must districts include debt from LOCAL financings in their financial statements? Yes.

School districts generally use the LOCAL program to make equipment and bus purchases. Equipment purchases may be the debt of either the general fund or the capital projects fund, while bus purchases by statute must be accounted for in the transportation vehicle fund.

LOCAL financing agreements must be recognized as long-term debt for a school district and must be included in the district's schedule of long-term debt and in the district's notes to the financial statements.

Proper accounting of these transactions begins with the budget process. Equipment and

buses purchased through the LOCAL program are to be included in the F-195 budget document filed with the Office of the Superintendent of Public Instruction (OSPI).

Districts should recognize the "revenue" or money provided by the financing agreement by booking general ledger account 965 (Other Financing Sources) and expenditure account 530, equal to the amount of the financing agreement. Districts would transfer the funds into the Debt Service Fund to repay the financing agreement, similar to other debt for which payments are made via electronic transactions.

With the adoption of GASB 34, account groups were eliminated and long-term debt (the portion of the debt that is not due within the next year) is no longer shown on the F-196 (fund financial statements). While not required, districts may find it useful to continue to make journal entries and accumulate debt information in a long-term debt "holding account." This can help districts track their debt and prepare the required Schedule of Long-Term Debt and note disclosures.

Information on specific journal entries can be found in the School District Accounting Manual. For additional guidance, districts can contact their local educational service district, OSPI or the State Auditor's school specialist, JoLynn Berge, at (360) 664-3147.

LOCAL Advisory Group

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Open

State Auditor's Office
representative

Our new Web address:

www.tre.wa.gov

(click on LOCAL)

State's aging school bus fleet gets boost from LOCAL

School districts across Washington are preparing to work with the LOCAL Program to finance the replacement of old and potentially unsafe school buses.

For this one-time replacement program, LOCAL is working with the Office of the Superintendent of Public Instruction (OSPI) to offer an extension of the usual 10-year maximum financing term to 13 years, the lifetime of a school bus.

The push to replace the aging buses in the state's fleet arises from a proposed change to the Washington Administrative Code (WAC) that would require school buses by the close of 2004 to meet all federal bus safety standards adopted in April 1977. The effect of this change in the WAC would be to eliminate all pre-1977 buses.

The one-time extension is available for bus purchases to all qualified school districts, not just those replacing pre-1977 buses.

To ensure buses ordered are available by the start of the 2004-05 school year, the financing would have to be processed in the May 2004 period; LOCAL must receive a district's application by the April 1, 2004, cutoff date for this special issue.

LOCAL will need a minimum pool of about \$2 million in bus orders (all districts combined) to go ahead with the financing.

According to OSPI, the expectation is that school districts would place orders in October 2003 to take delivery in the May-June 2004 window.

To find out whether your school district qualifies for this financing opportunity or for details about applying, contact Sue Melvin, LOCAL's equipment specialist, at (360) 902-9022. The LOCAL program booklet and application forms are available on the Office of the State Treasurer Website at www.tre.wa.gov.

Quick fact

The LOCAL Program has financed more than \$54 million in equipment and real estate for 171 local governments in Washington.

Come see us

LOCAL representatives will staff booths at these upcoming conferences:

Washington Fire Commissioners Association
Oct. 23-25
Spokane

Infrastructure Assistance Coordinating Council
Oct. 28-30
Wenatchee

Washington State School Directors Association
Nov. 13-15
SeaTac

Second home



This 3,000-square-foot fire station was built in the Colville area in Fall 2002. Stevens County Fire District 7 had been saving for years to build a second station, and as time went on the cost of construction kept getting higher. "We figured we'd have to finance the construction within our existing budget because we had little chance of passing a levy increase," says Katie Hoverter-Wilhelm of the district. "The LOCAL program allowed us to finance the part of the cost that we could not swing ourselves. The staff were great, answered questions and helped us through the paperwork. Even the timelines provided incentive to get things done."

Annual LOCAL financing schedules

Real estate

Cutoff	Funding date	First payment due
Jan. 1	Mid-March	June 1 (year of issue)
April 1	Mid-June	Dec. 1 (year of issue)
July 1	Mid-September	Dec. 1 (year of issue)
Oct. 1	Mid-December	June 1 (following year)

Equipment

Cutoff	Funding date	First payment due
Feb. 1	Mid-March	June 1 (year of issue)
May 1	Mid-June	Dec. 1 (year of issue)
Aug. 1	Mid-September	Dec. 1 (year of issue)
Nov. 1	Mid-December	June 1 (following year)



Office of the State Treasurer

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